

Montague Area Public Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2007

# Montague Area Public Schools

## TABLE OF CONTENTS

Management’s Discussion and Analysis.....	i - vii
Independent Auditors’ Report.....	1
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets.....	2
Statement of Activities .....	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	4
Reconciliation of the Governmental Funds Balance Sheet	
to the Statement of Net Assets .....	5
Statement of Revenues, Expenditures and Changes	
in Fund Balances .....	6
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures and Changes in Fund Balances to the Statement of	
Activities .....	7
Statement of Fiduciary Assets and Liabilities.....	8
Notes to Financial Statements .....	9
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund .....	25

This section of the Montague Area Public School's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year ended June 30, 2007. It is to be read in conjunction with the district's financial statements which immediately follows.

### **Financial Highlights**

The district's total net assets were \$612,438 at June 30, 2007, which was a decrease from fiscal year 2006 of \$317,756.

During the year, the district's total expenses were \$15,525,574. Of this amount:

- \$450,784 was paid by direct charges (mostly from the Muskegon Area Intermediate School District and other school districts for special education services and from food sales) to the benefiting parties;
- \$2,140,536 was paid by grants from the state and federal governments; and
- The remaining portion was paid through property taxes, state financial aid, investment income and other locally generated revenues.

The district's governmental funds reported total combined fund balance of \$1,642,022, an increase of \$110,579 from the previous year.

Total governmental fund operating revenues increased 3.3% to \$14,548,016 while the total governmental fund operating expenditures decreased 0.78% to \$15,502,937.

### **Overview of Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the auditors' opinion, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district.

The first two statements are district-wide financial statements that provide both short-term and long-term information about the district's overall status.

The remaining statements are the fund financial statements that focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements.

- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

### **District-Wide Statements**

The district-wide statements report information on the district as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the district's net assets and how they have changed. Net assets - the difference between the district's assets and liabilities - are one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the district, you need to consider additional non-financial factors such as changes in the district's property tax base, student count and the condition of school buildings and other facilities.

In the district-wide financial statements, the district's activities are all governmental activities. Most of the district's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds rather than the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending for particular programs.

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for specific purposes. Montague Area Public Schools maintains funds for athletics, food service, debt retirement, capital project, scholarship and agency funds.

The district has two kinds of funds:

- Governmental funds-most of the district's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because long-term information is not generally included in the governmental funds statements, additional information is provided that explains the differences between the district-wide statements and the governmental funds statements.
- Fiduciary funds-the district is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the district cannot use these assets to finance its operations.

**Financial Analysis of the District as a Whole**

Net assets as of June 30, are shown in Table 1.

**Table 1**  
**Net Assets**

	Governmental activities	
	2007	2006
Current assets	\$ 4,835,441	\$ 4,082,137
Capital assets, net	33,671,316	34,727,419
Other noncurrent assets	607,630	540,342
Total assets	39,114,387	39,349,898
Current liabilities	4,661,287	3,997,481
Noncurrent liabilities	33,840,662	34,422,223
Total liabilities	38,501,949	38,419,704
Net assets		
Invested in capital assets, net of related debt	4,468,013	4,527,723
Restricted for nonexpendable permanent funds	41,971	40,872
Unrestricted	(3,897,546)	(3,638,401)
Total Net Assets	\$ 612,438	\$ 930,194

**Financial Position**

Current assets increased by \$753,304 from the 2006 balance due to cash from additional borrowings from state aid anticipation notes. In addition, capital asset balances decreased by \$1,056,103 (net of \$948,778 depreciation). Other non-current assets increased by \$67,288 due to bond issuance costs for the 2007 refunding bond.

The district borrowed an additional \$240,000 from the School Bond Loan Fund to assist with its debt service requirements. The 2001 bond issue was partially refunded by the issuance of new bonds which will reduce future interest costs.

**Financial Analysis of the District as a Whole - Continued**

The impact that the district's revenues and expenses had on overall financial position is shown in Table 2.

**Table 2**  
**Changes in Net Assets**

	Governmental activities	
	2007	2006
Revenues		
Program revenues		
Charges for services	\$ 450,784	\$ 466,717
Operating and contributions	2,140,536	2,023,778
General revenues		
Property taxes	4,544,063	4,270,991
Unrestricted grants and contributions	7,867,549	7,627,871
Other	204,886	214,877
Total revenues	15,207,818	14,604,234
Expenses		
Instruction	7,661,174	7,613,075
Supporting services	4,216,733	4,135,679
Food service	580,304	550,744
Athletics	268,534	284,531
Interest on long-term debt	1,589,491	1,518,429
Unallocated depreciation and amortization	1,209,338	1,220,639
Total expenses	15,525,574	15,323,097
Change in net assets	(317,756)	(718,863)
Net assets at beginning of year	930,194	1,649,057
Net assets at end of year	\$ 612,438	\$ 930,194

**Change in Net Assets**

- Total expenses of \$15,525,574 exceeded total revenues of \$15,207,818 resulting in a decrease in total net assets of \$317,756.
- The increase in expenditures was primarily the result of inflationary increases in wages and benefits.
- There was an increase in revenue from Medicaid and for special education services.
- Enrollment increased to a blended student count of 1,486 in 2006-07, a .45% increase from 2005-06.
- The 2007 state foundation of \$10,530,294 was an increase of \$359,006 from 2006. The increase was due to the increase in the foundation allowance which increased by \$210 per pupil, from \$6,875 to \$7,085.
- The \$359,006 increase in the state foundation was made up of an increase of \$222,642 in state aid and an increase of \$136,544 in property tax revenue.

### Financial Analysis of the District's Funds

The district's General Fund reported total fund balance of \$1,214,033 at June 30, 2007. Of this amount, \$1,188,985 was unreserved and undesignated. This fund balance level represents an increase of \$120,265 from the prior year. Significant changes affecting fund balance are as follows:

- There was an overall increase in revenues of \$321,826 due to a small increase in state aid and additional federal revenue.
- Expenditures for instruction and supporting services increased by \$190,382 due to interest expense on state aid anticipation note, which increased from the prior year, and inflationary increases in wages and benefits.
- Principal payments of \$12,388 and interest of \$786 were made in conjunction with the copier loan.
- The General Fund transferred out \$218,000 to support the athletics fund.

The district's debt service funds reported a combined fund balance of \$205,533 at June 30, 2007, an increase of \$35,749.

- There was an increase in property taxes levied for debt service of \$114,305.
- Total debt service payments were \$2,550,891, a 1.9 % decrease from the previous year. Of the amount spent for the year ended June 30, 2007, \$1,185,000 was paid on principal and \$1,365,891 was spent on interest and other charges.
- The district borrowed \$240,000 from the Michigan School Bond Loan Fund.

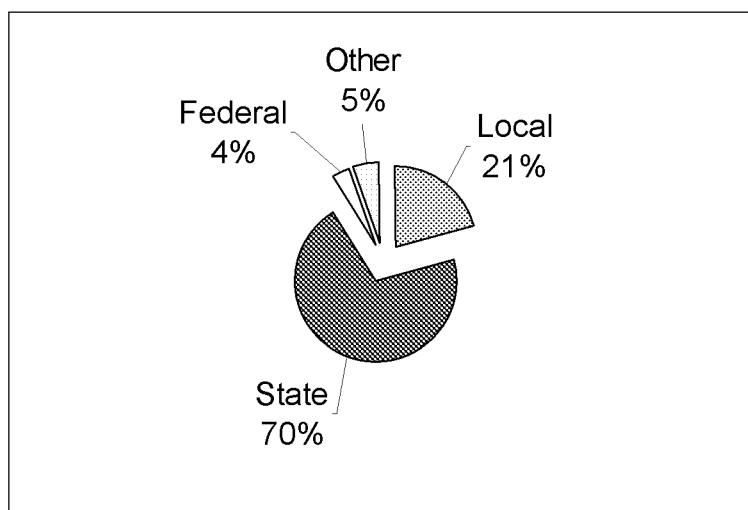
### **General Fund Budgetary Highlights**

District budgets were reviewed and amended twice during the fiscal year. A schedule showing the district's original and final amended budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements.

The original budget was based on 1,460 students, but the actual count was 1,486. The original budget was also adjusted for two new categoricals received from the State of Michigan as well as the collection of higher than anticipated Medicaid revenue. The original budget for general administration was adjusted to include the additional costs associated with the search of a new superintendent. Pupil transportation services was increased due to the increased costs for special education transportation services as well as substitute bus driver costs.

The final budget of the district anticipated that expenditures would exceed revenues by \$156,046. However, actual revenues were \$7,297 lower than expected and actual expenditures were \$283,608 lower than expected, resulting in an actual increase in fund balance of \$120,265. Title I and Title IIA revenue were lower than budgeted by about \$66,000 due to budgeting the full grant award amounts, but saving a portion as carryover for the following year, whereas Special Education billback was higher than anticipated by about \$100,000. There were no significant variations between final budget and actual expenditures.

The majority of the district's funding is received from state sources. The financial stability of the district is dependent on the economic health of the State of Michigan. The following chart outlines the revenue by source.

**2006-2007 Sources of Revenue Chart****Capital Asset and Debt Administration****Capital Assets**

At June 30, 2007, the district had invested over \$33.6 million in net capital assets, including land, school buildings, school buses, athletic facilities, furniture, computer and audiovisual equipment and the transportation facility as shown below in Table 3. The district purchased a new bus and security systems for two buildings. Total depreciation expense charged to the district was \$15 million.

**Table 3**  
**Summary of Capital Assets**

	Governmental Activities	
	2007	2006
Land	\$ 722,563	\$ 722,563
Buildings and improvements	30,622,273	31,398,357
Equipment and furniture	2,131,966	2,268,181
School buses and vehicles	194,514	179,798
Construction in progress	-	158,520
Total	\$ 33,671,316	\$ 34,727,419

More detailed information about capital assets can be found in notes A and D of these financial statements.



### Long-Term Debt

At June 30, 2007, the district had \$35.1 million in general obligation bonds and other long-term debt outstanding as shown below in Table 4. During the year, the 2001 bond issue was partially refunded by the issuance of new bonds with lower future interest costs.

**Table 4**  
**Summary of Indebtedness**

	Governmental Activities	
	2007	2006
Balance of 2001 school building and site `bonds	\$ 7,140,000	\$ 12,655,000
Balance of 2005 refunding bonds, net	8,918,138	9,265,707
Balance of 2006 refunding bonds, net	8,748,585	8,730,129
Balance of 2007 refunding bonds, net	4,853,541	-
Balance of school bond loan fund and school loan revolving fund	4,660,097	4,216,912
Balance of 1998 Durant non-plaintiff bonds	104,504	104,504
Installment loan	12,388	24,776
Educational interconnection and Consortium Financing Agreement	76,158	88,851
Compensated absences	559,243	541,140
Total	\$ 35,072,654	\$ 35,627,019

More detailed information about the district's long-term debt can be found in notes A and H of these financial statements.

### Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the district was aware of the following circumstances that could significantly affect its financial health in the future:

- Health insurance costs for teachers rose less than 1% for 2007-08.
- The district's contribution to the school employee's retirement system decreased from 17.74% in 2006-07 to 16.72% in 2007-08.
- The teacher's contract will be in effect until August of 2010.
- The hourly contract negotiations were finalized, the contract will be in effect until June 2010.
- The State of Michigan has yet to finalize their 2007-08 budget.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional information, contact David L. Sipka, Superintendent, or Pamela Wernstrom, Director of Business Affairs, Montague Area Public Schools, 4882 Stanton Blvd., Montague, MI 49437, telephone number (231) 893-1515.

# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

October 8, 2007

Board of Education  
Montague Area Public Schools  
Montague, Michigan

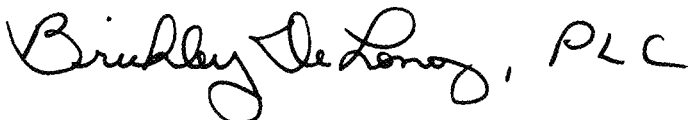
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montague Area Public Schools (School District), as of and for the year ended June 30, 2007, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montague Area Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montague Area Public Schools, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007, on our consideration of Montague Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vii and page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Montague Area Public Schools  
**STATEMENT OF NET ASSETS**  
June 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,491,410
Investments	1,322,079
Receivables	117,004
Due from other governmental units	1,873,230
Inventories	<u>31,718</u>
Total current assets	4,835,441
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	722,563
Depreciable	32,948,753
Bond issuance costs, net	485,037
Note and interest receivable	<u>122,593</u>
Total noncurrent assets	<u>34,278,946</u>
Total assets	39,114,387
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	1,300,000
Accounts payable and accrued liabilities	1,708,350
Due to other governmental units	254,389
Deferred revenue	148,467
Bonds and other obligations, due within one year	<u>1,250,081</u>
Total current liabilities	4,661,287
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	33,822,573
Accrued interest	<u>18,089</u>
Total noncurrent liabilities	<u>33,840,662</u>
Total liabilities	<u>38,501,949</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,468,013
Restricted for nonexpendable permanent funds	41,971
Unrestricted	<u>(3,897,546)</u>
Total net assets	<u>\$ 612,438</u>

The accompanying notes are an integral part of this statement.

**Montague Area Public Schools**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2007

<i><b>Functions/Programs</b></i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 7,661,174	\$ 13,687	\$ 1,302,056	\$ (6,345,431)
Support services	4,216,733	135,672	476,256	(3,604,805)
Food services	580,304	245,109	354,846	19,651
Athletics	268,534	56,316	3,978	(208,240)
Interest on long-term debt	1,589,491	-	3,400	(1,586,091)
Unallocated depreciation and amortization	1,209,338	-	-	(1,209,338)
Total governmental activities	<u>\$ 15,525,574</u>	<u>\$ 450,784</u>	<u>\$ 2,140,536</u>	(12,934,254)
General revenues				
Property taxes levied for				
General purposes				2,314,380
Debt service				2,229,683
Grants and contributions not restricted to specific programs				7,867,549
Investment earnings				154,356
Miscellaneous				50,105
Gain on sale of capital asset				425
Total general revenues				<u>12,616,498</u>
Change in net assets				(317,756)
Net assets at July 1, 2006				<u>930,194</u>
Net assets at June 30, 2007				<u>\$ 612,438</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2007

	General Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,176,734	\$ 314,676	\$ 1,491,410
Investments	1,216,403	105,676	1,322,079
Receivables	117,004	-	117,004
Due from other governmental units	1,869,091	4,139	1,873,230
Due from other funds	749	47,861	48,610
Inventories	25,048	6,670	31,718
Total assets	<u>\$ 4,405,029</u>	<u>\$ 479,022</u>	<u>\$ 4,884,051</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
State aid loan	\$ 1,300,000	\$ -	\$ 1,300,000
Accounts payable	176,142	47,937	224,079
Accrued liabilities	1,266,484	-	1,266,484
Due to other governmental units	254,389	-	254,389
Due to other funds	47,861	749	48,610
Deferred revenue	146,120	2,347	148,467
Total liabilities	3,190,996	51,033	3,242,029
Fund balances			
Reserved			
Inventories	25,048	6,670	31,718
Debt service	-	205,534	205,534
Capital projects	-	60,450	60,450
Permanent funds	-	41,971	41,971
Unreserved			
Undesignated			
General Fund	1,188,985	-	1,188,985
School service	-	113,364	113,364
Total fund balances	<u>1,214,033</u>	<u>427,989</u>	<u>1,642,022</u>
Total liabilities and fund balances	<u>\$ 4,405,029</u>	<u>\$ 479,022</u>	<u>\$ 4,884,051</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2007

Total fund balance—governmental funds		\$ 1,642,022
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 48,658,371	
Accumulated depreciation	<u>(14,987,055)</u>	33,671,316

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	584,083	
Accumulated amortization	<u>(99,046)</u>	485,037

Other long-term note and interest receivable in governmental activities is not reported in the  
governmental funds.

122,593

Accrued interest in governmental activities is not reported in the governmental funds.

(235,876)

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds and notes payable	(34,513,411)	
Compensated absences	<u>(559,243)</u>	<u>(35,072,654)</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>612,438</u></u>
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The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2007

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Local sources			
Property taxes	\$ 2,314,392	\$ 2,229,683	\$ 4,544,075
Investment earnings	101,734	12,660	114,394
Fees and charges	130,445	296,778	427,223
Other	50,518	50,287	100,805
Total local sources	<u>2,597,089</u>	<u>2,589,408</u>	<u>5,186,497</u>
State sources	8,573,419	39,872	8,613,291
Federal sources	433,754	314,474	748,228
Total revenues	<u>11,604,262</u>	<u>2,943,754</u>	<u>14,548,016</u>
EXPENDITURES			
Instruction	7,649,919	-	7,649,919
Support services	4,270,487	-	4,270,487
Food services	-	580,304	580,304
Athletics	-	268,534	268,534
Permanent	-	2,300	2,300
Debt service			
Principal	-	1,185,000	1,185,000
Interest and other charges	-	1,365,891	1,365,891
Bond issuance cost	-	91,641	91,641
Capital projects	-	88,861	88,861
Total expenditures	<u>11,920,406</u>	<u>3,582,531</u>	<u>15,502,937</u>
Excess (deficiency) of revenues over (under) expenditures	(316,144)	(638,777)	(954,921)
OTHER FINANCING SOURCES (USES)			
Transfers from other governmental units and other transactions	658,489	-	658,489
Loan proceeds	-	240,000	240,000
Proceeds of refunding bonds	-	4,755,000	4,755,000
Premium on refunding bonds	-	432,241	432,241
Transfers in	-	222,080	222,080
Transfers out	(222,080)	-	(222,080)
Payment to refunded bond escrow agent	-	(5,020,230)	(5,020,230)
Total other financing sources (uses)	<u>436,409</u>	<u>629,091</u>	<u>1,065,500</u>
Net change in fund balances	120,265	(9,686)	110,579
Fund balances at July 1, 2006	<u>1,093,768</u>	<u>437,675</u>	<u>1,531,443</u>
Fund balances at June 30, 2007	<u>\$ 1,214,033</u>	<u>\$ 427,989</u>	<u>\$ 1,642,022</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$	110,579
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,209,338)	
Capital outlay and bond issuance costs	<u>217,123</u>	(992,215)

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		3,400
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Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		(887)
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.		(5,300,196)
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		5,872,664
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Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		7,002
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>(18,103)</u>
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Change in net assets of governmental activities	\$	<u><u>(317,756)</u></u>
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The accompanying notes are an integral part of this statement.



Montague Area Public Schools  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2007

	Agency funds
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 92,097
	<hr/> <hr/>
LIABILITIES	
Deposits held for others	\$ 92,097
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Montague Area Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***District-wide and Fund Financial Statements—Continued***

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental fund:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *2001 Capital Projects Fund* accounts for the use of the proceeds from the 2001 School Building and Site bonds. The bonds were approved for issuance on September 22, 2001 and may be used for school building and site purposes.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *permanent fund* is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation*

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies***

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are August 31 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of taxable valuation.

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0
Debt service funds - Homestead and non-homestead	7.27

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Vehicles, furniture and equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Finance Committee submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Director of Financial Affairs is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

The School District did not have significant expenditure variances.

**School Bond Construction Compliance**

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's school code.

Following is a summary of the revenue and expenditures in the 2001 Capital Projects Fund from the inception of the fund through June 30, 2007.

	<u>2001 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 18,885,081
Expenditures	18,824,631



Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2007, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	\$ 1,216,403	37	AAAm	92 %
Mutual fund	105,676	48	AAA	8
Total fair value	<u>\$ 1,322,079</u>			<u>100 %</u>
Portfolio weighted average maturity		<u>38</u>		

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$1,497,179 of the School District's bank balance of \$1,604,804 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b>Capital assets, not being depreciated:</b>				
Land	\$ 722,563	\$ -	\$ -	\$ 722,563
Construction in progress	158,520	-	158,520	-
Total capital assets, not being depreciated	881,083	-	158,520	722,563
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	41,335,930	-	-	41,335,930
Furniture and equipment	5,625,571	226,960	186,992	5,665,539
Vehicles	923,112	57,042	45,815	934,339
Total capital assets, being depreciated	47,884,613	284,002	232,807	47,935,808
<b>Less accumulated depreciation:</b>				
Buildings and improvements	9,937,573	776,084	-	10,713,657
Furniture and equipment	3,357,390	363,175	186,992	3,533,573
Vehicles	743,314	42,326	45,815	739,825
Total accumulated depreciation	14,038,277	1,181,585	232,807	14,987,055
Total capital assets, being depreciated, net	33,846,336	(897,583)	-	32,948,753
Capital assets, net	\$ <u>34,727,419</u>	\$ <u>(897,583)</u>	\$ <u>158,520</u>	\$ <u>33,671,316</u>

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	\$ 492,442	\$ 91,641	\$ -	\$ 584,083
Less accumulated amortization	<u>71,293</u>	<u>27,753</u>	<u>-</u>	<u>99,046</u>
Bond issuance costs, net	<u>\$ 421,149</u>	<u>\$ 63,888</u>	<u>\$ -</u>	<u>\$ 485,037</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2007 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 749
Other governmental funds	General Fund	<u>47,861</u>
		<u>\$ 48,610</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$4,080 to the Food Service Fund and \$218,000 to the Athletics Fund to finance operations.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE G— SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
State aid anticipation note				
2005/2006 5.0% due August 2006	\$ 750,000	\$ -	\$ 750,000	\$ -
2006/2007 4.4% due August 2007	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
	<u>\$ 750,000</u>	<u>\$ 1,300,000</u>	<u>\$ 750,000</u>	<u>\$ 1,300,000</u>

**NOTE H—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, School Loan Revolving Fund, office equipment loan payable and Education Interconnection and Consortium Financing Agreement.

**Summary of Long-term Obligations**

On February 8, 2007, the School District issued \$4.755 million in General Obligation Bonds with interest rates from 4 to 5.5 percent to partially advance refund \$4.69 million of outstanding 2001 School Building and Site Bonds with interest rates of 5.5 percent. The net proceeds of approximately \$5.1 million (after payment of \$92 thousand in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for partial principle redemption and interest of 2001 School Building and Site Bonds which are scheduled for maturity May 1, 2012 through May 1, 2019. As a result, the 2001 School Building and Site Bonds are considered to be partially defeased and the liability for those bonds has been removed from long-term obligations.

The School District advance refunded the 2001 School Building and Site Bonds to reduce its total debt service payments over the next 12 years by over \$156 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of over \$150 thousand.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
<b>Governmental activities:</b>					
Bonds	\$ 30,755,340	\$ 4,857,011	\$ 5,847,583	\$ 29,764,768	\$ 1,225,000
Other obligations	4,330,539	443,185	25,081	4,748,643	25,081
Compensated absences	<u>541,140</u>	<u>76,971</u>	<u>58,868</u>	<u>559,243</u>	<u>-</u>
	<u>\$ 35,627,019</u>	<u>\$ 5,377,167</u>	<u>\$ 5,931,532</u>	<u>\$ 35,072,654</u>	<u>\$ 1,250,081</u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

In the previous schedule, the additions for other obligations include \$240,000 of new draws and \$25,395 of accrued interest on the School Loan Revolving Fund and \$177,789 of accrued interest on the School Bond Loan Fund.

General obligation bonds consist of the following:

2001 School Building and Site General Obligation Bonds partially refunded February 2007; payable in annual installments ranging from \$430,000 to \$1,000,000 due May 2008 to 2019; plus interest ranging from 3.7% to 5.5% payable semi-annually	\$ 7,140,000
2005 Refunding General Obligation Bonds payable in annual installments ranging from \$350,000 to \$735,000 due May 2008 to 2023; plus interest ranging from 2.5% to 5% payable semi-annually	9,115,000
Plus issuance premium	54,263
Less deferred amount on refunding	(251,125)
2006 Refunding General Obligation Bonds payable in annual installments ranging from \$50,000 to \$740,000 due May 2016 to 2031; plus interest ranging from 4% to 4.375% payable semi-annually	9,190,000
Less issuance discount	(69,886)
Less deferred amount on refunding	(371,529)
2007 Refunding General Obligation Bonds payable in annual installments ranging from \$575,000 to \$655,000 due May 2012 to 2019; plus interest ranging from 4% to 5.5% payable semi-annually	4,755,000
Plus issuance premium	417,539
Less deferred amount on refunding	(318,998)
Durant obligations payable in annual installments ranging from \$9,850 to \$61,663 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	104,504
Total bonded debt	29,764,768

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

Other obligations:

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements; interest payable of \$584,302 is included at interest rates between 2.625% and 4.875%	\$ 3,923,446
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School Loan Revolving Fund payable no later than May 2037; interest payable of \$29,651 is included at interest rates between 4.685% and 5.041%	736,651
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Equipment loan payable in annual installments of \$12,388 through July 2007; plus interest at 3.1%	12,388
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Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,693 due March 2008 to 2013	<u>76,158</u>
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Total other obligations	4,748,643
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Compensated absences	<u>559,243</u>
	<u><u>\$ 35,072,654</u></u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt, equipment loan and Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 1,250,081	\$ 1,312,019	\$ 2,562,100
2009	1,287,543	1,273,089	2,560,632
2010	1,333,011	1,227,430	2,560,441
2011	1,383,503	1,179,359	2,562,862
2012	1,514,356	1,146,982	2,661,338
2013-2017	8,109,556	4,564,525	12,674,081
2018-2022	8,130,000	2,565,065	10,695,065
2023-2027	4,425,000	1,143,951	5,568,951
2028-2031	<u>2,960,000</u>	<u>323,752</u>	<u>3,283,752</u>
	<u><u>\$ 30,393,050</u></u>	<u><u>\$ 14,736,172</u></u>	<u><u>\$ 45,129,222</u></u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE I—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$1,180,000, \$1,111,000, and \$1,014,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE J—CONTINGENCIES**

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE K—OTHER INFORMATION**

**Economic Dependence** – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 74 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

**NOTE L—SUBSEQUENT EVENT**

On August 20, 2007, the School District received the proceeds of a \$1,219,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2008 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.



## **REQUIRED SUPPLEMENTARY INFORMATION**

Montague Area Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund

For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,640,204	\$ 2,667,088	\$ 2,597,089	\$ (69,999)
State sources	8,358,244	8,583,983	8,573,419	(10,564)
Federal sources	430,000	494,469	433,754	(60,715)
Incoming transfers and other transactions	524,800	524,508	658,489	133,981
Total revenues	11,953,248	12,270,048	12,262,751	(7,297)
EXPENDITURES				
Instruction				
Basic programs	5,585,611	5,494,011	5,465,978	28,033
Added needs	2,255,577	2,323,343	2,183,941	139,402
Support services				
Pupil	588,072	575,621	574,508	1,113
Instructional staff	292,437	293,628	267,937	25,691
General administration	274,653	308,523	304,710	3,813
School administration	685,372	699,737	684,854	14,883
Business	333,249	299,799	285,377	14,422
Operations and maintenance	1,317,922	1,291,949	1,276,235	15,714
Pupil transportation services	732,811	783,021	743,106	39,915
Central	113,328	131,462	133,760	(2,298)
Outgoing transfers	208,200	225,000	222,080	2,920
Total expenditures	12,387,232	12,426,094	12,142,486	283,608
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(433,984)</u>	\$ <u>(156,046)</u>	120,265	\$ <u>276,311</u>
Fund balance at July 1, 2006			<u>1,093,768</u>	
Fund balance at June 30, 2007			\$ <u><u>1,214,033</u></u>	

# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

October 8, 2007

Board of Education and  
David L. Sipka, Superintendent  
Montague Area Public Schools  
Montague, Michigan

In planning and performing our audit of the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Montague Area Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiency in internal controls that we consider to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



## **SIGNIFICANT DEFICIENCIES**

Recommendation 1: Journal entries should be reviewed and approved by appropriate personnel.

During our audit, we noted that some journal entries are not being reviewed or approved by an appropriate official.

The review and approval of journal entries would increase the reliability of interim financial statements since inaccurate and/or inappropriate journal entries would be identified and eliminated before being recorded in the general ledger. We recommend a formal record be kept of all journal entries made.

Montague Area Public Schools  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2007

## CONTENTS

### FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

#### INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	5
--	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	7
--	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	9
--	---

SCHEDULE OF FINDINGS AND RESPONSES .....	10
--	----

#### CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	15
---	----

CORRECTIVE ACTION PLAN.....	16
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# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 8, 2007

Board of Education  
Montague Area Public Schools  
Montague, Michigan

We have audited the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Montague Area Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montague Area Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montague Area Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 3, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Board of Education  
October 8, 2007  
Page 2

***Compliance***

As part of obtaining reasonable assurance about whether Montague Area Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Montague Area Public Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Montague Area Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 8, 2007

Board of Education  
Montague Area Public Schools  
Montague, Michigan

### *Compliance*

We have audited the compliance of Montague Area Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2007. Montague Area Public Schools' cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Montague Area Public Schools' management. Our responsibility is to express an opinion on Montague Area Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montague Area Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Montague Area Public Schools' compliance with those requirements.

In our opinion, Montague Area Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described as Finding 4 in the accompanying Schedule of Findings and Responses.

### *Internal Control Over Compliance*

The management of Montague Area Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Montague Area Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Montague Area Public Schools' internal control over compliance.

Board of Education  
October 8, 2007  
Page 2

***Internal Control Over Compliance—Continued***

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses, as Findings 2 and 3, to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses.

Montague Area Public Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Montague Area Public Schools' responses and, accordingly, we express no opinion on them.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 8, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Montague Area Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Adjustments	Notes
					Prior year	Current year	Total			
U.S. Department of Education										
Passed through Michigan Department of Education										
Title I	84.010									
061530 0506		\$ 179,332	\$ 11,718	\$ 25,820	\$ 165,230	\$ 14,102	\$ 179,332	\$ -	\$ -	
061530 0607		29,721	-	29,721	-	29,721	29,721	-	-	
071530 0607		198,116	-	122,858	-	143,702	143,702	20,844	-	
		407,169	11,718	178,399	165,230	187,525	352,755	20,844	-	
Service Provider Self Review										
070440 0607	84.027	4,500	-	4,500	-	3,891	3,891	(609)	-	
Title V	84.298									
060250 0506		2,919	2,756	2,756	2,919	-	2,919	-	-	
Technology Literacy Challenge	84.318									
054290 0506		5,313	1,258	1,258	5,313	-	5,313	-	-	
064290 0506		239	239	239	239	-	239	-	-	
064290 0607		3,661	-	2,711	-	3,661	3,661	950	-	
		9,213	1,497	4,208	5,552	3,661	9,213	950	-	
Improving Teacher Quality	84.367									
060520 0607		20,766	-	6,398	-	20,766	20,766	14,368	-	
070520 0607		78,565	-	52,165	-	54,866	54,866	2,701	-	
		99,331	-	58,563	-	75,632	75,632	17,069	-	
Elementary and Secondary Education Hurricane Relief	84.938									
Katrina FY 2006 064120		3,288	3,288	3,287	3,288	-	3,288	-	(1)	4
Total passed through Michigan Department of Education		526,420	19,259	251,713	176,989	270,709	447,698	38,254	(1)	
Passed through Muskegon Area Intermediate School District										
PL 101-476 Flowthrough	84.027									
060450 0506		22,500	-	22,500	-	22,500	22,500	-	-	
070450 0607		124,318	-	101,784	-	124,318	124,318	22,534	-	
		146,818	-	124,284	-	146,818	146,818	22,534	-	
Total U.S. Department of Education		673,238	19,259	375,997	176,989	417,527	594,516	60,788	(1)	

Montague Area Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued	Cash or	Expenditures			Accrued	Adjustments	Notes
			(deferred) revenue July 1, 2006	payments in kind received (cash basis)	(accrual basis)		(deferred) revenue June 30, 2007	Prior year		
<b><i>U.S. Department of Agriculture</i></b>										
Passed through Michigan Department of Education										
National School Lunch and Breakfast										
Entitlement Commodities	10.550	\$ 37,202	\$ -	\$ 37,202	\$ -	\$ 37,202	\$ 37,202	\$ -	\$ -	
Bonus Commodities		260	-	260	-	260	260	-	-	
		37,462	-	37,462	-	37,462	37,462	-	-	
Child Nutrition Cluster										
061970 Lunch—Breakfast	10.553	62,865	-	7,303	57,374	7,303	64,677	-	-	
071970 Lunch—Breakfast		64,381	-	64,381	-	64,381	64,381	-	-	
		127,246	-	71,684	57,374	71,684	129,058	-	-	
061950 All Lunches	10.555	35,175	-	4,253	30,922	4,253	35,175	-	-	
071950 All Lunches		32,687	-	32,687	-	32,687	32,687	-	-	
061960 Free and Reduced		152,435	-	20,150	132,285	20,150	152,435	-	-	
071960 Free and Reduced		146,955	-	146,955	-	146,955	146,955	-	-	
		367,252	-	204,045	163,207	204,045	367,252	-	-	
061940 Special Milk	10.556	1,290	-	131	1,159	131	1,290	-	-	
071940 Special Milk		1,152	-	1,152	-	1,152	1,152	-	-	
		2,442	-	1,283	1,159	1,283	2,442	-	-	
Total Child Nutrition Cluster		496,940	-	277,012	221,740	277,012	498,752	-	-	
Total passed through Michigan Department of Education		534,402	-	314,474	221,740	314,474	536,214	-	-	
Passed through County of Oceana School and Roads	10.665	5,104	-	5,104	-	5,104	5,104	-	-	
Total U.S. Department of Agriculture		539,506	-	319,578	221,740	319,578	541,318	-	-	
<b><i>U.S. Department of Health and Human Services</i></b>										
Passed through Muskegon Area Intermediate School District										
Medical Assistance Program Title XIX 393	93.778	10,235	-	10,235	-	10,235	10,235	-	-	
TOTAL FEDERAL ASSISTANCE		\$ 1,222,979	\$ 19,259	\$ 705,810	\$ 398,729	\$ 747,340	\$ 1,146,069	\$ 60,788	\$ (1)	

The accompanying notes are an integral part of this schedule.

Montague Area Public Schools  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2007

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007

Governmental Funds financial statements

General Fund	\$ 433,754	
Other governmental funds (includes Food Service Fund)	<u>314,474</u>	\$ 748,228

Rounding adjustment from note 4 (1)

Less timing difference due to GASB 33 revenue recognition issues (887)

Expenditures per single audit report

Schedule of Expenditures of Federal Awards	<u>\$ 747,340</u>
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4. Rounding adjustment. The DS-4044 Final Expenditure Report filed after the June 30, 2006 audit reported expenditures that were \$1 less than the June 30, 2006 SEFA reported.

Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2007

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Montague Area Public Schools.
2. *Three (3)* significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. There were *no* instances of noncompliance material to the financial statements of Montague Area Public Schools disclosed during the audit as reported in Part B of this schedule.
4. *Two (2)* significant deficiencies disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and are reported in Parts B and C of this schedule. The significant deficiencies are not reported as material weaknesses.
5. The auditors' report on compliance for the major federal award programs for Montague Area Public Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The cluster of programs tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
U.S. Department of Agriculture Child Nutrition Cluster	10.553, 10.555 and 10.556

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Montague Area Public Schools was determined to be a low-risk auditee.

**Montague Area Public Schools**  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2007 Finding No. 1: Journal Entry Review and Approval Procedures**

*Criteria:* General ledger journal entries should be reviewed and approved prior to being recorded.

*Condition:* Currently, not all general ledger journal entries are being reviewed and approved.

*Cause:* There is not a formal procedure for accumulating journal entries.

*Effect:* Errors with the recording of transactions or adjustments could occur and not be detected.

*Recommendation:* A formal record should be kept of all journal entries, and all journal entries should be reviewed and approved by appropriate personnel.

*School District Response:* A procedure has been implemented that keeps track of all journal entries. The superintendent reviews and approves all journal entries.

***U.S. Department of Agriculture***

**Fiscal 2007 Finding No. 2: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.556

Award Numbers: 061970, 071970, 061950, 071950, 061960, 071960, 061940,  
and 071940

Award Year Ends: September 30, 2006 and September 30, 2007

*Specific Requirement:* Eligibility

*Criteria:* The A-102 Common Rule and OMB Circular A-133 require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

*Condition:* Procedures for reviewing eligibility determinations are not documented. There were 32 applications selected for testing and none of those applications had documentation indicating they had been reviewed and approved.

*Cause:* There is not a procedure in place to document that income eligibility has been reviewed.

*Questioned Costs:* Not determinable

*Context:* There were 32 applications that were selected for testing and none had documentation indicating they had been reviewed.

*Effect:* There is an increased risk that the performance of eligibility determination could be limited in scope, if there is no documentation of application review and approval.

*Recommendation:* The School District should require written documentation of the review and approval of child nutrition eligibility determination.

*School District Response:* The School District has established the procedure that the person who reviews income eligibility determination will sign or initial the applications as they are reviewed and approved.

Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**SIGNIFICANT DEFICIENCIES—Continued**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 3: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.556

Award Numbers: 061970, 071970, 061950, 071950, 061960, 071960, 061940, and 071940

Award Year Ends: September 30, 2006 and September 30, 2007

*Specific Requirement: Reporting*

*Criteria:* The A-102 Common Rule and OMB Circular A-133 require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

*Condition:* Monthly claims for reimbursement and year end reports are not reviewed or approved by appropriate personnel for accuracy. There were 9 monthly claims for reimbursement and 1 year end report that were submitted without prior review or approval. The year end report and 4 of the 9 monthly claims for reimbursement were tested. Based on the results of our audit testing, there were a total of 2 free lunches under reported and 320 meals over reported for paid lunches.

*Cause:* There are no procedures requiring the review and approval of monthly claims for reimbursement or year end reports.

*Questioned Costs:* \$76

*Context:* There were 9 monthly claims for reimbursement and 1 year end report that were submitted without prior review or approval. The year end report and 4 of the 9 monthly claims for reimbursement were tested. Based on the results of our audit testing, there were a total of 2 free lunches under reported and 320 meals over reported for paid lunches.

*Effect:* There is an increased risk that amounts submitted to the State of Michigan could be inaccurate, if there are not controls in place to review and approve monthly and year end reports.

*Recommendation:* The School District should implement procedures to require the review and approval of monthly claims for reimbursement and year end reports.

*School District Response:* The School District has established procedures to have central office personnel review and approve reimbursement claims and year end reports prior to the reports being submitted to the State of Michigan.



Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2007

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**COMPLIANCE**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 4: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.556

Award Numbers: 061970, 071970, 061950, 071950, 061960, 071960, 061940, 071940

Award Year Ends: September 30, 2006 and September 30, 2007

*Specific Requirement:* Special Tests and Provisions, Verification of Free and Reduced Price Applications

*Criteria:* The SFA must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals per Circular A-133 Compliance Supplement.

*Condition:* The School District performed focused sampling, but did not verify the correct number of applications required by focused sampling.

*Cause:* The verification sample size was inadvertently calculated incorrectly.

*Questioned Costs:* Not determinable

*Context:* There were 239 total applications. There were 60 applications approved based on categorical eligibility. The School District verified 9 applications. All were based on income eligibility. Only 3 applications should have been selected for verification based on income eligibility, and 1 application should have been selected for verification based on categorical eligibility. U.S. Department of Agriculture rules specifically limit the number of applications to be selected for verification based on sampling guidance.

*Effect:* The School District did not verify the correct number of applications as required by focused sampling.

*Recommendation:* The School District should review its verification procedures and provide additional training for staff who perform verification to ensure the appropriate number of applications are selected for focused sampling.

*School District Response:* The School District will implement procedures to ensure the required number of applications will be selected for verification in the future.

**SIGNIFICANT DEFICIENCIES**

See Findings 2 and 3 in Part B above.

## **CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

October 8, 2007

Michigan Department of Education  
Lansing, Michigan

Montague Area Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006 dated September 29, 2006.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**COMPLIANCE**

There were *no* compliance findings in relation to the financial statement audit.

**Fiscal 2006 Finding No. 1: Cash Segregation of Duties**

*Condition:* Individuals in the accounting department have multiple cash duties.

*Recommendation:* Segregation of duties in the accounting department should be strengthened.

*Current Status:* The recommendation was implemented during the year ended June 30, 2006. *No* similar funding was reported for the single audit for the year ended June 30, 2007.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

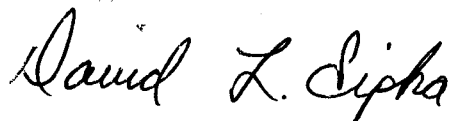
**COMPLIANCE**

There were *no* compliance findings reported in relation to major federal award programs.

**SIGNIFICANT DEFICIENCIES**

There were *no* significant deficiencies reported in relation to major federal award programs.

Sincerely,



David L. Sipka  
Superintendent

## **CORRECTIVE ACTION PLAN**

October 8, 2007

Michigan Department of Education  
Lansing, Michigan

Montague Area Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **B. FINDINGS—FINANCIAL STATEMENT AUDIT**

#### **COMPLIANCE**

There were *no* compliance findings in relation to the financial statements.

#### **SIGNIFICANT DEFICIENCIES**

##### **Fiscal 2007 Finding No. 1: Journal Entry Review and Approval Procedures**

*Recommendation:* Journal entries should be reviewed and approved by appropriate personnel.

*Action Taken:* The superintendent will review and approve all journal entries.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**SIGNIFICANT DEFICIENCIES—Continued**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 2: Child Nutrition Cluster - Eligibility**

*Recommendation:* The School District should require written documentation of the review and approval of child nutrition eligibility determination.

*Action Taken:* The School District has established the procedure that the person who reviews income eligibility determination will sign or initial the applications as they are reviewed and approved.

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 3: Child Nutrition Cluster - Reporting**

*Recommendation:* The School District should implement procedures to require the review and approval of monthly claims for reimbursement and year end reports.

*Action Taken:* The School District has established procedures to have central office personnel review and approve reimbursement claims and year end reports prior to the reports being submitted to the State of Michigan.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS**

**COMPLIANCE**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 4: Child Nutrition Cluster – Verification of Free and Reduced Price Applications**

*Recommendation:* The School District should review its verification procedures and provide additional training for staff who perform verification to ensure the appropriate number of applications are selected for verification.

*School District Response:* The School District will implement procedures to ensure the required number of applications will be selected for verification in the future.

Michigan Department of Education

October 8, 2007

Page 3

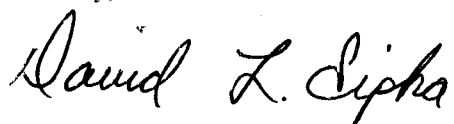
**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS—Continued**

**SIGNIFICANT DEFICIENCIES**

See Findings 2 and 3 in Part B above.

If the Michigan Department of Education has questions regarding this plan, please call David L. Sipka at (231) 893-1515.

Sincerely,

A handwritten signature in black ink that reads "David L. Sipka". The signature is written in a cursive, flowing style.

David L. Sipka  
Superintendent